Restaurant Business

A BILL PUBLICATION

MARCH 20, 1986

Franchising's New Mobility

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MARCH 20, 1986 VOL. 85, NO. 5

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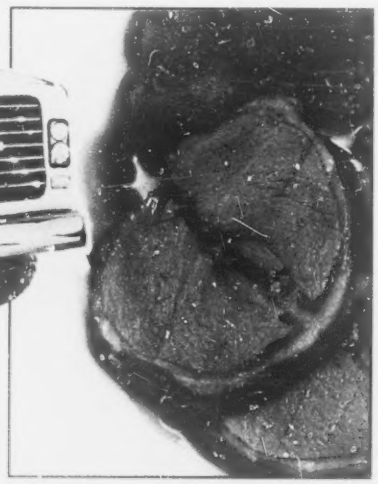

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Cover illustration by Kurt Merkel

ICE CREAM

The ice cream segment is maturing as operators target adults with new menu items.

The ice cream segment is maturing as more and more ice cream shops are broadening menus to cater to the health-conscious and adult population.

Minneapolis, MN-based Dairy Queen, the giant among ice cream chains with 4,827 units reports that 1985 was one of its best years ever, and that 1986 calls for 160 new units. The chain is also involved in a joint venture with Mister Donut to six dual concept locations in 1986.

The major new product introduced this year by Dairy Queen was Blizzard, soft serve blended with a variety of candies and cookies.

With 3,160 units (over 3,000 franchised), Baskin Robbins is the second largest ice cream chain. Earlier this year, the Glendale, CA-based chain introduced a line of sherbets and two new ice cream flavors.

The Yonkers, NY-based Carvel Corporation, which has been in business for over 50 years, currently has more than 800 franchised units and two company-owned stores.

Carvel offers both hard and soft ice cream as well as novelty items, dietary frozen desserts, and sherbets. Average unit sales range from $325,000 to $350,000.

Another chain that has been expanding quickly is Bresler's 33 Flavors. The 400-unit, Chicago,IL-based chain is creating a stronger presence in established markets by opening 40 to 50 units systemwide with a high concentration in Chicago. Recently, the chain rolled out a tofu-like non-dairy product and a waffle cone sundae.

Swensen's Ice Cream Company will be concentrating on opening units in the Sunbelt and California for 1986. The Artzona-based company currently has 382 units in operation in the U.S. and abroad. Swenson's will open 25 to 30 stores in the U.S., including Alaska, and 15 internationally, including Australia.

This year Swenson's is promoting its scaled-down store model designed for smaller market areas. The modified store is 2,000 sq. ft. compared to the 3,000 sq. ft. of the full-service store.

The yogurt and superpremium chains have been steadily adding more units and establishing themselves within the ice cream segment over the past few years.

New York City, NY-based Everything Yogurt, one of the forerunners in the frozen yogurt market, has 65 units, and plans to add 15 stores in 1986, primarily in the Northeast.

I Can't Believe It's Yogurt has 50 stores in operation. The Dallas, TX-based company has 100 units currently under construction throughout the U.S. and has plans to open another 30, mostly in the Southwest.

This Can't Be Yogurt, a 256-unit chain with its concentration in the Southwest and Southeast, has plans to add 250 more units across the U.S. including new markets in the Northeast and Northwest.

Haagen-Daz, established in 1970, has 336 units in the U.S., primarily in malls and strip centers. The company, which will open 30 units in 1986, is promoting its new sorbet line and new ice cream bar.

Larry's Olde Fashioned Ice Cream Parlours, Inc., continues its quick growth rate. Since 1981, the Oldsmar, FL-based chain has 75 units throughout the Southwest.

Frusen Gladje ice cream, a 67-unit, New York-based company has also been established only since 1981 but is making its mark in the superpremium market. Twenty-five units are planned for 1986.

Frusen Gladje founder Richard Smith and the Andal Corp., have bought 49-unit Steve's Ice Cream and plan to open 25 units outside the chain's Northeast stronghold.

Another small but growing superpremium chain is Ben & Jerry's. The 14-unit, Waterbury, VT-based chain plans to open 20 units in 1986 along the East Coast.—**Cheryl Turi**

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ICE CREAM AND YOGURT STORES *(49 franchisors)*

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1984	944,693	55,977	888,716	6,736	202	6,534
1985*	1,059,589	71,310	988,279	7,717	250	7,467
1986*	1,273,290	95,405	1,177,885	9,038	340	8,698

*Data for 1985 and 1986 estimated by restaurants

DONUT

By broadening menus, donut chains are trying to build traffic at lunch and snack periods.

Following the lead of operators in the other major segments, donut chains are also responding to the health trend and the breakfast boom that has hit the nation. The introduction of muffins, soups, croissants, and croissant sandwiches are establishing donut shops as a place where customers can obtain light and quick foods during all dayparts.

The dominant companies in the segment include: Dunkin' Donuts, based in Randolph, MA, which operates 1,447 units in the U.S. and 126 in foreign countries; Mister Donut of America, a division of International Multifoods, based in Minneapolis, MN, which operates 726 units worldwide; and Winchell's Donut House, a Denny's subsidiary based in La Mirada, CA, which operates 737 units in the U.S.

Segment leaders say reasons for strong expansion in the donut segment are tied to a new image many of the companies are promoting. Dunkin' Donuts vice president and treasurer Richard Hart says, "One of the reasons we will be able to add 115 stores (85 in North America and 30 overseas) by year-end 1986 is because the customer is not seeing us just as a place to get donuts. Some consumers see us as a bakery, others see us as a take-out operation."

In addition, Hart says, the company's new line of muffins and croissant sandwiches (ham and cheese, roast beef and cheese) are catering to the health conscious customer while helping to build lunch sales.

Dunkin' Donuts has one of the largest average annual unit volumes in the segment at $431,900.

Mister Donut is also following the current breakfast boom and health trend in the industry with the introduction of "healthy breakfast and lunch items," says spokesperson Deanne Becker. "The new trends are not hurting us; they are allowing us to sell a larger variety of products. We are trying to show that Mister Donut can be an all-day alternative, not just a breakfast spot."

Some of the new products include a line of muffins including blueberry, bran, corn, chocolate chip, and maple nut, and five types of bagels offered with various toppings. In addition, the company is strengthening its lunch sales with a variety of soups served with biscuits.

Although Mister Donut does not have the exact number of units planned for 1986, expansion will concentrate along the East Coast, Pacific Basin, and the Middle East.

One of the most recent and interesting expansion agreements in the segment involves Winchell's Donut Houses and Arco gas stations. The donut chain is teaming up with Arco's convenience store chain, called AM PM, to build up its sales and West Coast market presence. Winchell's and Arco will open six stores in the Los Angeles and Phoenix markets before the end of March. Future expansion plans with the C-store chain will begin after an 18-month test period.

In addition, the company, which has not been franchising for 14 years, plans to franchise 50 units throughout the West.

Although the large companies can claim a steady expansion rate, the smaller companies are also experiencing growth. California-based Spudnuts, one of the oldest chains in the segment, has 35 units (eight company-owned, 27 franchised) with plans to open six units in California, Texas, and Arizona.

Granny's Donut Houses, a small western chain with units located in Wyoming and Colorado, is looking to establish a track record and find some people interested in helping the company grow. The Casper, WY-based company features 52 varieties of donuts. This year, blueberry, bran, and cranberry-orange muffins and croissant sandwiches were introduced. —**Cheryl Turi**

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DONUT SHOPS *(21 franchisors)*

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1984	756,591	88,063	668,528	2,318	218	2,100
1985*	842,901	95,145	747,756	2,464	221	2,243
1986*	960,601	102,967	857,634	2,698	224	2,474

*Data for 1985 and 1986 estimated by respondents.

Restaurant franchising in the economy

by Andrew Kostecka

The restaurant business is the top format franchise industry with sales of $48.9 billion in 1985.

The franchise system of distribution is a significant part of the U.S. economy. Franchising has become a powerful force partly because economic factors have made growth through company-owned units difficult for many businesses. To follow this rapidly growing industry, the U.S. Department of Commerce conducts a comprehensive annual survey. Franchising in the Economy, 1984-1986, *which is prepared by Andrew Kostecka. Following are excerpts from the exclusive study providing an overview of business format franchising and a specific analysis of the restaurant industry.*

Franchising sales of goods and services in more than 478,000 outlets are expected to reach $576 billion in 1986, about nine percent higher than a year earlier and about 72 percent over the level of sales at the start of the 1980s. Employment in franchising, including part-time workers and working proprietors, was 5.7 million in 1984 and will probably reach more than 6.3 million by the end of 1986. Movement by U.S. franchisors to foreign markets continues to grow at a rapid rate. In 1984, there were 328 U.S. franchisors with over 27,000 outlets located overseas.

Business format franchising

Business format franchising is characterized by an ongoing business relationship between franchisor and franchisee that includes not only the product, service, and trademark, but the entire business format itself—a marketing strategy and plan, operating manuals and standards, quality control, and continuing two-way communications. Restaurants, nonfood retailing, personal and business services, rental services, real estate services, and a long list of other service businesses fall into the category of business format franchising. Business format franchising has been responsible for much of the growth of franchising in the United States since 1950 and will continue to offer opportunities for those individuals seeking their own businesses.

The volume of sales and the number of units owned or franchised by business format franchisors have been steadily on the rise since 1972. Sales of business format franchisors are expected to be over $151 billion in 1986, compared with $135 billion in 1985 and $122 billion in 1984; the number of establishments expected to increase to almost 329,000 in 1986, compared to 300,971 in 1985 and 283,576 in 1984.

The number of business format franchisors offering their products and/or services to prospective franchisees has also been rising steadily since 1972 and this upward trend is expected to continue through the 1990 as more companies are choosing to expand through franchising.

Large franchisors, those with 1,000 or more units each, continue to dominate business format franchising, with 54 companies accounting for 50 percent of all sales and establishments in 1984. The total number of outlets reported by these large franchisors stood at 141,796 with sales of $60.6 billion. Thirteen of these large franchisors were engaged in restaurants and nine were in automotive products and services.

Sales of products and services by business format franchisors to their

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franchisees totaled $68 billion in 1984 and might rise to about $84 billion by 1986. Franchisor sales of merchandise for resale were largest in the nonfood retailing category — $2.4 billion in 1984 — followed by automotive products and services at $1.9 billion. Franchisor sales of food ingredients amounted to $1.8 billion in 1984 of which $987 million went to restaurants and $792 million to food retailers other than convenience stores.

Trends and outlook

The trend toward formation of franchisee advisory councils and associations, in which franchisee participation is continuing. These forums serve not only as a place for franchisees to air out problems but in many cases, they become the source of stimulating ideas that often lead to increased profits for both and a strengthening of the franchise system. In terms of business relations, these forums also give franchisees a voice in the operation of the company, and serve to reduce friction points between headquarters and the franchisees before they lead to legal encounters and angry confrontations.

The multi-unit franchisee continues to gain popularity with the franchisor for related reasons. It is easier and more efficient for a franchisor to deal with a franchise holder who has a major stake in the business.

Franchising will continue to widen its scene to include a variety of service industries including a broad range of computerized services, professional services, and other areas geared to the needs of small and medium-sized businesses. More franchising is also expected in areas that specialize in health and fitness programs and in maid services. Other areas that show growth potential are temporary help services, ice cream outlets, video equipment sales, and the automotive aftermarket.

RESTAURANT FRANCHISING, 1984-1986
SALES ($000)

Major Activity	Firms	1984 Total	1984 Company-Owned	1984 Franchisee-Owned
Chicken	33	$3,891,165	$1,599,723	$2,291,442
Hamburgers, Franks, Roast Beef, etc.	105	22,043,955	6,055,926	15,988,029
Pizza	104	4,932,329	1,874,951	3,057,378
Mexican (Taco, etc.)	36	2,113,104	1,121,070	992,034
Seafood	12	1,074,426	622,258	452,168
Pancakes, Waffles	13	985,350	318,193	667,157
Steak, Full Menu	111	7,767,393	4,671,807	3,095,586
Sandwich and Other	51	626,060	129,624	496,436
TOTAL	465	43,433,782	16,393,552	27,040,230

Data estimated by respondents for 1985 and 1986

RESTAURANT FRANCHISING, 1984-1986
NUMBER OF UNITS

Major Activity	Firms	1984 Total	1984 Company-Owned	1984 Franchisee-Owned
Chicken	33	8,576	3,162	5,414
Hamburgers, Franks, Roast Beef, etc.	105	29,305	6,445	22,860
Pizza	104	12,705	4,362	8,343
Mexican (Taco, etc.)	36	3,774	1,702	2,072
Seafood	12	2,320	1,308	1,012
Pancakes, Waffles	13	1,704	526	1,178
Steak, Full Menu	111	9,563	4,883	4,680
Sandwich and Other	51	2,548	563	1,985
TOTAL	465	70,495	22,951	47,544

Data estimated by respondents for 1985 and 1986

Changing demographics, lifestyles, and purchasing patterns have caused a quiet revolution in retail marketing. Franchisors reacting to the consumer marketplace are providing additional services to meet the needs and desires of certain age, marital status, income level, and lifestyles groups. As a result of these changes, retail franchisors are adopting new store fronts and adding new products and services, such as providing financial services catering to the desires of local customers.

In franchising, trading up can emphasis on better quality merchandise should assume greater importances in the years ahead. Continued growth in disposable personal income should provide the finances required to pay for merchandise needed to complement existing or desired lifestyles.

Nonfood retailing will expand and accommodate new types of stores and products. The growth of specialty store retailers featuring specialized merchandise and services can be expected to continue. The proliferation of stores that sell

1985*			1986*		
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
$4,402,558	$1,848,639	$2,553,919	$5,085,080	$2,131,906	$2,953,174
24,058,881	6,684,416	17,374,465	26,457,012	7,472,962	18,984,050
5,721,265	2,190,494	3,530,771	6,740,770	2,488,581	4,252,189
2,403,653	1,273,152	1,130,501	2,678,791	1,395,125	1,283,666
1,202,950	705,150	497,800	1,409,910	824,450	585,460
1,065,430	335,595	729,835	1,140,638	358,498	782,140
8,413,997	5,011,151	3,402,846	9,400,887	5,463,652	3,937,235
739,839	156,123	583,716	896,420	183,115	713,305
48,008,573	18,204,720	29,803,853	53,809,508	20,318,289	33,491,219

1985*			1986*		
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
9,256	3,392	5,864	10,175	3,721	6,454
31,016	6,937	24,079	33,189	7,657	25,532
14,417	4,876	9,541	16,259	5,300	10,959
4,200	1,862	2,338	4,660	2,007	2,653
2,463	1,401	1,062	2,737	1,551	1,186
1,773	543	1,230	1,876	579	1,297
9,877	4,989	4,888	10,648	5,204	5,444
2,872	580	2,292	3,379	645	2,734
75,874	24,580	51,294	82,923	26,663	56,259

rent video cassettes and small computers/software are examples.

Food retailers will continue to seek more efficient ways of appealing to the segmented food market. They will also attempt to obtain a larger share of the consumer's budget that is normally spent in restaurants. In addition, food retailers will compete fiercely among themselves for market share.

The trend of acquisitions of franchising companies is persisting, indicating that franchising is an integral and established method of conducting a profitable business. Rising costs and the proliferation of government franchise regulations have been cited as contributing factors in the increased use of the acquisition route as a means of expanding the franchising form of distribution.

International markets

U.S. franchisors are currently operating in most major countries or are engaged in serious negotiations for the purpose of entering foreign markets, an indication that foreign nations have welcomed the entry of U.S. franchisors and that local laws and regulations have not been overly restrictive as they apply to U.S. restaurant chains.

Franchising operations in foreign markets, however, involve many of the same problems confronting other business ventures. Language difficulties, differences in customs, and sometimes unpredictable government decision-making are examples of impediments all U.S. franchisors encounter when attempting to take advantage of opportunities in other countries.

Compared to other service sectors, the problems of franchise companies in accomplishing international transactions, are relatively less formidable. Franchisors must comply with the same requirements as domestic businesses and the franchise agreements must comply with local contract law, antitrust law, and trademark licensing laws.

We know of no real trade barriers that discriminate specifically against U.S. franchisors. There are no specific regulations restricting franchise operations and no prohibitive laws governing franchising that differ from those which affect other types of business operations. Of course, some restrictions affect franchising more than other businesses but that is because of the nature of franchising rather than a foreign government's opposition to franchising as a system of distribution.

Foreign countries are increasingly exhibiting the same attributes which fostered the surge of service industries in the U.S. These attributes include rising disposable personal income, growing demand for consumer goods and services, expanding urbanization, and higher mobility.

The Department of Commerce survey reveals that 328 U.S. franchising companies operated 27,021 outlets in foreign countries in 1984.

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The trend toward the use of franchisee advisory groups helps avoid legal battles.

this compares with 305 franchisors with 25,682 outlets in 1983. Furthermore, an additional 137 companies have indicated that they are considering extending their U.S. operations to foreign countries by the end of 1987. This interest has been expressed mostly by small- and medium-sized franchisors, marketing a variety of services and products. Of the companies seeking foreign markets, 32 are franchisors of business aids and services and 30 are restaurant franchisors.

The form of entry into foreign markets varies considerably, with many firms using more than one method in conducting foreign operations. Of the 328 franchisors doing business in foreign countries in 1984, 307 sold their outlets to franchisees either directly or through a master licensee who received the right to develop the franchisor's system in a specific country or region; 38 operated joint ventures; and 32 had some company-operated units.

Canada continues to be the dominant market for U.S. franchisors despite its declining share of U.S. foreign outlets. In 1984, 30 percent of all U.S. foreign franchised outlets were located in Canada, down from a high of 46 percent in 1971. A total of 243 U.S. franchising firms with 8,101 units operated in Canada in 1984, predominantly in restaurants (1,591), nonfood retailing (1,477) and business aids/services (1,012).

Japan continues to be the second largest market for U.S. franchisors with a total of 5,659 units, of which 72 percent represent various food categories such as restaurants, donut shops, ice cream stores and convenience food stores.

The United Kingdom ranks third with 2,456 outlets.

Retail growth

Retailing dominates franchising, accounting for 38 percent of all franchising receipts in 1985. The retail sales of all firms associated with franchising reached about $468 billion in 1985, or 33 percent of all U.S. retail sales estimated at $1.4 trillion.

Continued growth in disposable income should provide the finances required for future purchases. Retailing will continue to expand and accommodate new types of stores and products. The proliferation of stores that sell or rent video cassettes, small computers, and software are examples of new stores and products. For all retailing (including franchising), the greatest growth from 1975 to 1985 was by food stores, followed by building materials; eating and drinking places; furniture, home furnishings and equipment stores; and drug stores.

The remainder of the decade should witness the continued growth of retail stores that sell at less than full mark-up. These stores include off-price outlets, warehouse operations and deep-discount stores.

Restaurants

In recent years, there has been an increase in the development of theme-oriented eateries. In addition, traditional restaurants seeking to maintain and expand market share are reviewing their current operations with an eye toward upgrading

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U.S. FRANCHISED RESTAURANTS, 1984-86 SUMMARY

Item	1984	1985*	1986*	Percent Changes 1984-85	Percent Changes 1985-86
Company-owned	22,951	24,580	26,664	7.1	8.5
Franchisee-owned	47,544	51,294	56,259	7.9	9.7
Total number of establishments	70,495	75,874	82,923	7.6	9.3
Company-owned	16,393,552	18,204,720	20,318,289	11.0	11.6
Franchisee-owned	27,040,230	29,803,853	33,491,219	10.2	12.4
Total sales of products and services: ($000)	43,433,782	48,008,573	53,809,508	10.5	12.1
Merchandise (non-food) for resale	108,076	112,690	122,819	4.3	9.0
Supplies (such as paper goods, etc.)	190,276	204,606	219,259	7.5	7.2
Food ingredients	986,997	1,121,464	1,237,197	13.6	10.3
Other	48,680	51,022	59,546	4.8	16.7
Total sales of products and services by franchisors to franchisees: ($000)	1,334,029	1,489,782	1,638,821	11.7	10.0

**Data estimated by respondents for 1985 and 1986*

The most franchised restaurants continue to be found in Texas, Ohio, Florida, and California.

their physical appearance and making other changes, such as concentrating on the sale of ethnic foods. Some have designed their facilities around a theme that highlights a bygone era or a foreign or nonlocal setting. Others arrange seating so that diners can observe meals being prepared by their culinary staff.

Franchised restaurants, striving to maintain their strong market position, are increasing the number of their outlets by locating at bus terminals, colleges, hospitals, military bases, and other facilities. To maximize the use of facilities and raise sales, firms are introducing longer store hours, varied menus, salad bars, new products, and breakfast.

International operations of franchised restaurants continue to expand. In 1984, 67 restaurant franchisors operated 5,990 units in foreign countries, compared to 64 restaurant franchisors and 5,516 units a year earlier. Canada accounted for the largest number of restaurants followed closely by Japan. Restaurants with major activity in hamburgers, frankfurters and roast beef accounted for the largest number of outlets followed by chicken and pizza. Another 30 franchisors of restaurants plan to extend their operations to foreign countries by the end of 1987.

Sales of franchised restaurants of all types reached almost $48 billion in 1985, up 11 percent over a year earlier; they are expected to jump about 12 percent, to $54 billion in 1986. Franchised restaurants numbered 70,495 in 1984, increased to 75,874 in 1985, and are expected to rise to almost 83,000 in 1986. The highest concentrations of franchised restaurants continue to be California, Texas, Ohio, and Florida.

Employment in the franchised restaurant sector was 2,182,143 in 1984, up from 1,954,646 a year earlier, a rise of 12 percent. Employment in the franchised restaurant industry accounts for 38 percent of employment in the franchised system as a whole and should continue to rise in the next few years.

Furthermore, franchised restaurant employees accounted for an estimated 42 percent of all persons employed in eating places in the U.S.

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U.S. FRANCHISED RESTAURANTS*
Number of Establishments by State: 1984

State	Total	Company-Owned	Franchisee-Owned	State	Total	Company-Owned	Franchisee-Owned
Alabama	1,178	332	846	Nebraska	533	124	409
Alaska	92	4	88	Nevada	308	149	159
Arizona	1,026	368	658	New Hampshire	139	26	113
Arkansas	682	120	562	New Jersey	1,110	287	823
California	7,146	2,325	4,821	New Mexico	546	131	415
Colorado	1,181	361	820	New York	2,231	571	1,660
Connecticut	546	168	378	North Carolina	1,884	398	1,486
Delaware	140	55	85	North Dakota	148	10	138
District of Columbia	141	73	68	Ohio	3,814	1,344	2,470
Florida	3,742	1,406	2,336	Oklahoma	1,387	597	790
Georgia	2,121	955	1,166	Oregon	855	223	632
Hawaii	220	72	148	Pennsylvania	2,281	820	1,461
Idaho	226	26	200	Rhode Island	119	31	88
Illinois	3,057	1,040	2,017	South Carolina	964	273	691
Indiana	2,106	629	1,477	South Dakota	208	23	185
Iowa	1,106	193	913	Tennessee	1,551	544	1,007
Kansas	1,026	266	760	Texas	5,854	2,322	3,532
Kentucky	1,302	345	957	Utah	397	88	309
Louisiana	1,174	406	768	Vermont	57	4	53
Maine	161	36	125	Virginia	1,565	556	1,009
Maryland	889	367	522	Washington	1,033	353	680
Massachusetts	793	260	533	West Virginia	489	163	326
Michigan	2,648	866	1,782	Wisconsin	1,332	377	955
Minnesota	1,333	366	967	Wyoming	180	20	160
Mississippi	799	95	704				
Missouri	1,606	554	1,052				
Montana	207	6	201	TOTAL	65,633	21,128	44,505

**Represents 93% of total establishments.*
The remaining 7% were unable to provide a geographic breakdown for this report.

Rostecka *continued from page 178*

TOP 30 FRANCHISE RESTAURANT SYSTEMS

1984-85 Systemwide Sales by Company and Franchise ($000,000)***

Franchise System	1985		1984		'84-'85 % Change
McDonald's	$11,000	(2,860c/8,140f)**	$10,000	(2,538c/7,469f)	10
Burger King*	$3,990	(639c/3,351f)	$3,420	(542c/2,878f)	17
Kentucky Fried Chicken	$3,100	(1,000c/2,100f)	$2,850	(880c/1,970f)	9
Wendy's	$2,700**	(1,045c/1,655f)	$2,420	(877c/1,543f)	12
Hardee's*	$2,200	(1,000c/1,200f)	$1,900	(900c/1,000f)	16
Pizza Hut	$2,100	(1,050c/1,050f)**	$1,700**	(850c/850f)	24
Dairy Queen*	$1,572	(2c/1,570f)**	$1,390	(2c/1,388f)**	13
Taco Bell	$1,140**	(582c/558f)**	$925**	(471c/454f)**	23
Big Boy*	$1,135**	(22c/1,113f)**	$1,000**	(27c/973f)**	14
Domino's Pizza*	$1,097**	(323c/774f)**	$626	(196c/430f)**	75
Arby's	$814	(99c/715f)**	$757	(100c/657f)**	8
Church's	$739**	(606c/133f)**	$634	(545c/89f)	17
Ponderosa*	$681	(500c/181f)	$585	(418c/167f)	16
Long John Silver's*	$637	(390c/247f)	$602	(367c/235f)-	6
Jack in the Box*	$612**	(539c/73f)**	$588**	(547c/41f)**	4
Dunkin' Donuts*	$577	(33c/544f)**	$532	(29c/503f)	8
Shoney's*	$576	(268c/308f)	$516	(242c/274f)	12
Roy Rogers	$507**	(348c/159f)**	$443**	(319c/124f)**	14
Sizzler*	$443	(147c/296f)	$384	(132c/252f)	15
Baskin-Robbins*	$423.5**	(.5c/423f)**	$388.5**	(.5c/388f)**	9
Bonanza*	$421	(3c/418f)	$401	(2c/399f)	5
Western Sizzlin'*	$420**	(4c/416f)**	$428**	(4c/424f)**	(2)
Popeyes*	$356**	(50c/305f)**	$304	(63c/241f)	17
Chi-Chi's*	$334	(193c/141f)	$273	(152c/121f)	22
Little Caesar's	$300	(78c/222f)**	$227	(60c/167)**	32
Sonic Drive-In*	$292	(22c/270f)	$283	(24c/259f)	3
Rax Restaurants*	$280	(105c/175f)	$216	(97c/119f)	29
Perkins*	$274	(94c/180f)	$281	(96c/185f)	(3)
Captain D's*	$270	(154c/116f)	$239	(133c/106)	13
Godfather's Pizza	$268	(52c/216f)**	$304	(80c/224f)**	(12)

1984-85 Systemwide Units by Company and Franchise***

Franchise System	1985		1984		'84-'85 % Change
McDonald's	8,901	(2,225c/6,676f)**	8,304	(2,053c/6,251f)	7
Burger King*	4,225	(635c/3,590f)	3,827	(549c/3,278f)	10
Kentucky Fried Chicken	6,396	(1,826c/4,570f)	6,175	(1,713c/4,462f)	4
Wendy's	3,459	(1,257c/2,202f)	2,992	(1,057c/1,935f)	16
Hardee's*	2,411	(870c/1,541f)	2,229	(825c/1,404f)	8
Pizza Hut	4,912	(2,224c/2,688f)	4,679	(2,021c/2,658f)**	5
Dairy Queen*	4,822	(6c/4,816f)	4,795	(6c/4,789f)	1
Taco Bell	2,173	(1,160c/1,013f)	1,833	(925c/908f)	19
Big Boy*	870	(160c/710f)	845	(209c/636f)	3
Domino's Pizza*	2,816	(802c/2,014f)	1,870	(579c/1,291f)	51
Arby's	1,545	(184c/1,361f)	1,373	(174c/1,199f)	13
Church's	1,647**	(1,355c/292f)**	1,497	(1,225c/272f)	10
Ponderosa*	641	(454c/187f)	667	(446c/221f)	(4)
Long John Silver's*	1,359	(825c/534f)	1,355	(812c/543f)	3
Jack in the Box*	822	(709c/113f)	788	(727c/61f)	4
Dunkin' Donuts*	1,447	(78c/1,369f)**	1,359	(73c/1,286f)	7
Shoney's*	488	(209c/279f)	433	(188c/245f)	13
Roy Rogers	540	(355c/185f)	474	(341c/133f)	14
Sizzler*	465	(138c/327f)	451	(139c/312f)	3
Baskin-Robbins*	3,305**	(4c/3,301f)**	3,205**	(4c/3,201f)**	3
Bonanza*	542	(3c/539f)	551	(3c/548f)	(2)
Western Sizzlin'*	500**	(5c/495f)**	510**	(5c/505f)**	(2)
Popeyes*	540	(69c/471f)**	437	(86c/351f)**	24
Chi-Chi's*	145	(67c/78f)	165	(69c/96f)	(12)
Little Caesar's	890	(220c/670f)	645	(172c/473f)	38
Sonic Drive-In*	970	(85c/885f)	968	(92c/876f)	2
Rax Restaurants*	443	(164c/279f)	346	(136c/210f)	28
Perkins*	319	(98c/221f)	312	(96c/216f)	2
Captain D's*	490	(275c/215f)	456	(255c/201f)	8
Godfather's Pizza	810	(157c/653f)	895	(237c/658f)	(9)

*Fiscal year-end results (remainder are calendar year-end results).
**Estimated by Restaurant Business or by the respective company.
***Includes international operations.

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Canada and Japan remain the top two markets for international expansion by U.S. firms.

During 1985, 71 franchisors with a total of 160 restaurants (128 franchisee-owned) went out of business, while 18 franchisors with a total of 353 restaurants (251 franchisee-owned), decided to abandon franchising as a method of marketing.

There were 13 big franchisors with over 1,000 units each in 1984. Combined, they represented 53 percent of all restaurants in the franchise system, or 37,467 restaurants, of which 25,680 were franchisee-owned and 11,787 were company-owned. They also represented 60 percent of total franchised restaurant sales, i.e., $26 billion, of which $18 billion were franchisee-owned.

Convenience stores

Convenience food stores are an important factor in food retailing. Because of changing demographics and lifestyles, they have expanded rapidly, evolving into a large and sophisticated segment of food retailing. Many resemble scaled-down, modern supermarkets and offer on-premise food service facilities and self-service gasoline.

Currently, foodservice, i.e., restaurant-style foods and beverages prepared in the store for consumption elsewhere, are becoming more important. Almost all convenience stores offer some type of food service, at least hot beverages and fresh pastries. Many stores offer a wide variety of foodservice items: cold sandwiches, hot sandwiches, pizza, and fried chicken. Many stores have installed bulk soft drink (post-mix) dispensing apparatus because of higher profit margins compared with bottled beverages.

Despite intensified competition from supermarkets offering extended hours and Sunday shopping, sales moved up six percent to $10.9 billion in 1985. The number of franchised stores in 1985 was reported to be 15,314, up 2.4 percent. Further gains are expected in 1986—13 percent in sales, 5.3 percent in stores.

Other food retailing

The retailing of food by specialty food shops, ice cream stores, coffee services, donut shops, bakeries, cookie shops, candy stores, nut stores, and others, amounted to $9.1 billion in 1985, 5 percent over the previous year. Sales in 1986 are expected to reach $9.9 billion. In 1986, the number of units is expected to rise to 20,153, a jump of 14 percent over the year before.

Two of the better known groups in this category are ice cream and yogurt stores and donut shops. The sales and number of establishments for these specialty stores for 1984-86 are listed in the charts on page 166 and page 168, respectively.

Hotels and motels

Occupancy rates in the lodging industry should be about 65 percent in 1985 with a stronger showing in 1986. Business travel generally accounts for more than 60 percent of the rooms occupied, with the balance split almost between pleasure and convention travel. Pleasure travel, although influenced by fluctuations in the economy, has grown steadily in recent years.

There is a trend among hotel chains to provide a variety of locations and hotel types to meet all levels rather than a specific segment. This diversification may take the form of luxury properties, an all-suite chain, a line of moderately-priced hotels and a budget chain. New rooms coming available are mostly in the budget hotels, airport hotels, and all-suite properties. Hotel, motel, and campground franchisors in 1985 represented 7,639 establishments, with receipts estimated at $14.3 billion. Receipts are expected to rise nine percent in 1986 over 1985, reaching almost $15.5 billion. Total receipts for the lodging industry are estimated at $42.1 billion in 1985 of which 34 percent is accounted for by franchised hotels/motels. □

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INTERNATIONAL RESTAURANT FRANCHISING
Location and Number of Units

	U.S. Firms	Total	Canada	Mexico	Caribbean	United Kingdom	West Europe	Australia	Japan	Other Asia	South America	Africa	New Zealand	Central America
Chicken	9	1,757	7	68	120	378	83	235	504	157	15	164	45	14
Hamburgers, Franks and Roast Beef	16	3,117	1,233	10	101	190	428	205	667	183	43	11	19	39
Pizza	14	559	101	31	45	3	33	134	63	74	11	8	24	21
Mexican	2	90	64	0	20	0	0	2	0	3	1	0	0	1
Seafood	3	11	6	0	0	0	0	0	0	5	0	0	0	0
Pancakes	2	12	3	0	0	0	0	0	8	1	0	0	0	0
Steak, Full Menu	14	461	175	20	2	2	0	4	248	0	0	0	0	0
Sandwich, Other	2	3	3	0	0	0	0	0	0	0	0	0	0	0
Total	67	5,043	1,591	110	290	573	544	580	1,490	423	90	183	88	75

*Includes company-owned, franchisee-owned and joint ventures
Source: U.S. Dept. of Commerce

John Naisbitt

The future of restaurant franchising

The future looks bright for restaurants, the granddaddy of franchising, despite fears of saturation.

What does the future hold for franchising? To answer this question, the International Franchise Association (IFA) commissioned the Naisbitt Group, under the direction of John Naisbitt, author of Megatrends *and* Reinventing the Corporation, *to conduct a comprehensive study that "would identify existing and emerging trends and their implications for the franchising industry." Following is an excerpt from* The Future of Franchising, *addressing the restaurant industry and specific trends that will affect franchising.*

The outlook for restaurants, the granddaddy of the franchise industry, is healthy, despite fears that fast food chains have saturated the market. Projections are for franchised restaurants to post total sales of $49 billion in 1985, an average annual increase of 12 percent for five years since 1980. By 1990, franchised restaurants should generate more than $86 billion.

As in the past, most franchised restaurants are fast-food operations. The story of McDonald's, forerunner of franchised fast food, illustrates the growth of the industry as a whole. Founded in 1955, the chain with the Golden Arches claimed 1,500 outlets by 1970. Fifteen years later, McDonald's has 8,500 units, 500 of them opened in 1984. In 1985, the chain reached a rate of opening one new unit every 12 hours.

Encouraged by the success of McDonald's and other fast-food franchisors, non-fast-food restaurants ventured into franchising.

Still, some franchise experts warn of an impending shakeout and slowdown in the franchised restaurant industry. "Domestic saturation is becoming a problem and will soon be the new reality," warns Natalie Blachier, Burger King's manager of strategic services. As a result, companies will turn to international markets to sustain long-term growth, she says. But not everyone in the fast-food industry agrees. Several franchisors countered the prediction with the late Ray Kroc's oft-quoted maxim: "Saturation is for sponges." He may have been right. According to a *Venture* magazine list of the fastest-growing franchises based on unit growth, 23 of the top 100 are fast-food operations.

Despite the optimistic outlook, the fast-food franchise industry is changing. A general consumer trend toward healthier eating habits has caused restaurants to expand their menus. More fast-food outlets feature healthy foods, such as salads, and generally "more palatable" menus. In addition, restaurateurs have expanded their hours to include service for all three meals. In particular, many fast-food restaurants emphasize breakfast menus.

Fast foods not only are becoming healthier, they are more varied. Ethnic foods, particularly Mexican and Oriental, can be found at many fast-food restaurants. "Burgers will still gain the lion's share, but ethnic foods are where it's at, so far as fast growth is concerned," observes Gilbert Simon, legal counsel for Wendy's. The trend is due to an increasing ethnic population as well as a consumer desire to try alternatives to the standard fast-food fare.

A growing number of fast-food companies have tuned into this trend. The list of franchised pizza outlets rose by 26 percent from 1983 to 1985. During the same period, chains offering Mexican food increased by 22 percent. By contrast, franchises selling traditional fast food, such as hamburger, increased by 12 percent. This trend is mirrored

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in total revenues. Revenues from pizza went up 31 percent, those for tacos climbed by 30 percent. Hamburger revenues rose by 26 percent.

Some experts believe that the popularity of ethnic fast food may be temporary. Ethnic foods are "an area worth paying attention to," but probably will not have the lasting success of more traditional fast foods, according to Blacher.

Franchised restaurants have adapted to changing consumer tastes. But they also must be prepared for demographic and societal shifts. In particular, fast food operators will be affected greatly by the projected dramatic decline in the teenage population. By the mid-1990s, there will be nine million fewer teenagers, but the number of preteen children will jump by five million. Since large numbers of teenagers are both employees and customers of franchised restaurants, the industry faces a two-fold dilemma. First, they must offer new incentives to keep the teenage workers they already have as well as attract new workers, such as retired people and housewives. Second, they must alter their menus to appeal more to "adult" tastes.

Franchisors cannot ignore another demographic trend—the elderly explosion. New marketing strategies are being used in an effort to attract older customers. Representatives from Tastee Donuts, Kentucky Fried Chicken, and Dairy Queen indicate that building renovation and upgrading are effective ways to deal with shifting consumer demand.

Hotels and motels

The lodging industry is changing rapidly, as independent hotel and motel owners become a thing of the past. Half of all American hotel rooms belong to a recognized, franchised chain. That share rises to 75 percent when seasonal inns and hotels with 25 rooms or less are eliminated from the count.

Is there an impending shakeout due to saturation? Or is, "Saturation for sponges?"

Hotels are not among the fastest-growing areas of franchising. Revenues grew an average of nine percent during the last five years. The franchised lodging industry reported 1985 sales of nearly $15 billion, and should top $22 billion in 1990. New growth can be attributed to an increase in pleasure travel that started in the 1970s and is expected to continue through 1990.

Specifically, family travel is on the rise. In light of this trend, economy-priced hotels and motels will grow more than any other type of lodging. Economy units, which are easy to finance, build, and operate, are the choice of new developers. However, business travel still accounts for 60 percent of hotel and motel business, so there is still room for growth in upscale accommodations.

Conversion franchising has also helped reshape the lodging industry. "Independents are falling by the wayside or joining chains," explains Brian O'Connor, franchising director for Marriott Corp. "Consumers are looking for value, the convenience of an 800 (toll-free) phone number and product continuity."

To keep up with these changes, lodging franchisors have altered their marketing techniques. Marketing has become more sophisticated. For example, several of the major chains have adopted the so-called "hub and spoke" concept. First developed by airline companies, this concept is based on the premise that the same customer will purchase variations of a product for different situations. Thus, a hotel guest will select one facility for business travel

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GROWTH OF TOP TEN FORMAT FRANCHISE INDUSTRIES, 1985-1990

Business	Sales (in billions) 1985	Sales (in billions) 1990	Annual % Growth
Restaurants (All types)	$ 48.9	$ 86.1	12.0
Retailing (Nonfood)	18.8	33.6	12.3
Hotels, Motels, Campgrounds	14.6	22.5	9.0
Convenience Stores	12.3	19.4	9.5
Business Aids and Services	12.1	21.3	12.0
Automotive Products and Services	10.6	15.9	8.5
Retailing (Food other than convenience stores)	10.4	15.9	7.0
Rental Services (Auto, truck)	5.3	8.9	11.0
Construction and Home Services	3.7	92.5	20.0
Recreation, Entertainment, Travel	1.8	6.6	29.0
Total	$138.5	$238.1	11.5

Source: The Future of Franchising, The Naisbitt Group

and another when travelling with his family. This idea has led to a multi-tiered approach in which one lodging chain—Quality Inns—operates luxury, midpriced, and economy hotels.

Convenience stores

Traditional convenience stores find themselves in a showdown with other food retailers. Convenience stores have met with competition from supermarkets offering extended hours and Sunday shopping. To fight back, convenience stores offer more products and services, including prepared take-out food and automatic banking.

William Schurber, an official with Convenient Food Mart, believes that "super convenience stores will start to squeeze out supermarkets."

The fast food industry is preparing for the confrontation. Burger King's Natalie Blacher says: "Convenience stores, such as 7-Eleven, are coming into competition with fast food chains. No longer are they simply places to get a loaf of bread, a cup of coffee, or a six-pack. Now you can get a take-out ham and cheese sandwich with no waiting or fuss. This poses a possible threat."

However, growth in convenience franchising has slowed gradually over the last 15 years. While annual growth was 25 percent during the 1970-1975 period, it slowed to 20 percent during the 1975-1980 period. The growth rate has stood at 11.5 percent since 1980. Meanwhile, sales and revenues for franchised convenience stores surpassed $12 billion in 1984 and should near $20 billion in 1990.

Specialty food retailers

The list of shops selling specialty foods, from flavored popcorn and designer chocolates to fresh-from-the-oven cookies, is growing steadily. Family ice cream stores and donut shops once dominated this area of retailing; now they are joined by shops offering exotic snack foods. Many industry experts believe that the success of specialty food franchises, whose sales amounted to $9.3 billion in 1984, is due to the consumer trend toward "boutique" shopping.

Eventually, the word 'franchise' will lose its fast food connotation.

Much of the growth in specialty food franchising can be attributed to its small investment requirement. Specialty food operations will continue to attract franchisees because these businesses are "an easy entry level into the franchising business," says Stan Bresler, chairman and president of Bresler's 33 Flavors.

Opportunities in specialty food franchising will continue to mount. Total revenues increased at an average annual rate of more than 38 percent from 1975 to 1980. Although growth has slowed since then to seven percent annually, 1985 sales reached $10.4 billion. By 1990, sales should be near $15 billion.

Summary

By the year 2000, franchise sales will account for half of all retail sales. Almost any service imaginable will be franchised and many independent businesses will be absorbed by franchising. Much of franchising's success is due to new consumer attitudes about convenience and quality. And by tailoring products and services to the burgeoning seniors market, franchisors and franchisees will be ready for a major demographic shift.

Fast food restaurants and retail stores will remain the leaders in format franchising. Not only will franchised restaurants continue to prosper, but more sit-down, upscale restaurants will turn to franchising. Eventually, "franchise" will lose its fast food connotation.

However, by the year 2000, the franchised restaurant industry is likely to share top billing with a handful of new service-oriented businesses. Franchises offering business aids and services as well as construction and home services, including maid and lawn care franchises, show no signs of slowed growth. Recreation, entertainment, and travel franchises also will expand.

The overall picture for franchising is bright. Sales growth in format franchising has averaged 12 percent since 1972. Although franchising sales could top $2.5 trillion by the year 2010, it is more likely they will begin to plateau in the mid-term. Sales growth could slow as franchising becomes more prevalent in a wide range of business areas, thereby saturating some markets. Franchising growth then will begin to parallel general growth in the service economy. Most industry experts believe that sales by business-format franchises will reach $438 billion by 1995 and $705 billion by 2000.

Franchise outlets are the new mom and pop stores of America—and other countries. By 1990, there could be as many McDonald's restaurants internationally as there are in the U.S. Franchising's low-risk format appeals to minorities and women—potential entrepreneurs traditionally excluded from the business world. The phenomenal growth of franchising signals a need for increased education about the industry. Eventually, the study of franchise operations will occupy a larger part of business schools' curriculum. However, the industry's swift growth also is likely to result in efforts to enact stricter regulations over the industry. □

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